

IRS MOVES TO CLARIFY THIRD-PARTY NOTICES TO REFLECT NEW TAXPAYER RIGHTS

WASHINGTON – In a move to emphasize taxpayer rights, the Internal Revenue Service will revise a letter for taxpayers to more clearly spell out the circumstances surrounding third-party contacts about tax liability.

IRS Commissioner Charles O. Rossotti said Tuesday the letter will be rewritten because the current version fails to clearly explain the details about when the agency may contact third parties in connection with taxpayers facing collection or examination actions.

“We made a mistake, and we’re going to fix it,” Rossotti said.

In last year’s IRS Restructuring and Reform Act, Congress required the agency to provide taxpayers reasonable notice before contacting outside parties about the person’s tax situation. The contacts are generally used as a last resort to resolve unanswered questions about the assets, address or tax liability of a taxpayer in connection with IRS collection or examination activities or other tax liability determinations.

A letter notifying taxpayers about potential third-party contacts in their cases started going out after Jan. 18. Tax practitioners alerted the IRS to the letter’s questionable wording.

The letter said the IRS “may need to contact third parties. Third party contacts may include, but are not limited to, neighbors, employers, employees and banks.”

Rossotti pointed out the letter could unnecessarily alarm taxpayers about the IRS potentially contacting outside parties on sensitive tax issues. He said the letter also doesn’t give taxpayers the information they need to understand their legal rights and IRS procedures.

He promised the IRS will work hand-in-hand with tax practitioners to create a new, clearer version that more accurately portrays the IRS’s emphasis on working directly with taxpayers before contacting third parties. The agency will seek comment on the new letter from tax practitioners, small businesses and any other interested taxpayers.

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“This third-party notice does not represent the first-rate service we must give taxpayers,” Rossotti said. “I promise that when we rewrite the notice – and we will – we will get it right.”

Rossotti said the letter was unacceptable because it failed to include several key points involving taxpayer rights and mistakenly raised taxpayer concerns about privacy issues.

“The new version will use clear, direct language to spell out the rights of the taxpayer in a way people can understand,” Rossotti said.

The old letter (Number 3164) did not mention the normal IRS procedure, which is to first contact the individual taxpayer and work cooperatively to gather the needed information. If that move fails, the IRS then has the legal option of contacting third parties.

The new letter will still notify taxpayers about this third-party contact possibility, but it will go a step further. It will inform the taxpayer about the IRS’s responsibility under the 1998 law to periodically notify individuals of which outside parties the agency has contacted. It will also highlight that the taxpayer has the right to request a list of people the IRS has contacted.

Rossotti stressed that the vast majority of people who received the old letter will not see the IRS talking to outside parties about tax questions. The IRS is not contacting any more third parties than it did before the 1998 law added the taxpayer rights provisions.

“We don’t want people to think this letter means we’re increasing our contacts with third parties,” Rossotti said. “Our intent is to alert taxpayers about their rights, and take every possible step to answer tax questions in a professional, confidential manner – without involving third parties.”

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